Letter

Title	OSFI increases the level of the Domestic Stability Buffer by 50 basis points
Date	June 20, 2023

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Footnotes

- **To:** Domestic Systemically Important Banks (D SIBs)[1]
- **Reference:** Capital Adequacy Requirements Guideline

Following its semi-annual review, OSFI is raising the level of the Domestic Stability Buffer (DSB) to 3.5% of total risk-weighted assets, effective November 1, 2023, as calculated under the Capital Adequacy Requirements (CAR) Guideline.

On December 8, 2022, OSFI announced that, following a review of the design and range of the DSB to ensure the long-term effectiveness of the capital regime and public confidence in it, the DSB range would be broadened to 0% to 4%. This expanded range gives OSFI more capacity to respond to rising vulnerabilities should it become necessary, while D-SIBs have more room to absorb losses and maintain lending during times of stress.

OSFI is raising the level of the DSB based on its observations that systemic vulnerabilities remain elevated and increasing while near-term risks have remained relatively low and stable. We are currently in a period of rising interest rates and house prices have begun to climb. Along with the risk of a housing market downturn and high debt servicing costs for households, corporate debt levels remain elevated and there is persistent global uncertainty around fiscal and monetary policy. These conditions support today's decision to increase the buffer and OSFI views it to be prudent for D-SIBs to maintain healthy capital buffers as a margin of safety against severe but plausible risk scenarios.

OSFI will review the DSB periodically to ensure that it continues to contribute to the safety and soundness of Canada's financial system and to promote public confidence in the system. Should vulnerabilities continue to worsen, or new risks materialize, we will not hesitate to take further action to support financial system resilience.

[1] The following federally regulated financial institutions are designated as D-SIBs: Bank of Montreal, Bank of Nova Scotia, Canadian Imperial Bank of Commerce, National Bank of Canada, Royal Bank of Canada, and Toronto-Dominion Bank.